

**REPORT OF THE AUDIT OF THE
LARUE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

May 3, 2004



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LARUE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

May 3, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for LaRue County Sheriff as of May 3, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$ 3,460,574 for the districts for 2003 taxes, retaining commissions of \$ 142,897 to operate the Sheriff's office. The Sheriff distributed taxes of \$ 3,288,770 to the districts for 2003 Taxes. Taxes of \$10,659 are due to the districts from the Sheriff.

Report Comment:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,842,272 To Protect Deposits

Deposits:

As of December 8, 2003, \$1,842,272 of the Sheriff's deposits were uninsured and unsecured by sufficient collateral.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Tommy Turner, LaRue County Judge/Executive

Honorable Bobby Shoffner, LaRue County Sheriff

Members of the LaRue County Fiscal Court

Independent Auditor's Report

We have audited the LaRue County Sheriff's Settlement - 2003 Taxes as of May 3, 2004. This tax settlement is the responsibility of the LaRue County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the LaRue County Sheriff's taxes charged, credited, and paid as of May 3, 2004, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tommy Turner, LaRue County Judge/Executive
Honorable Bobby Shoffner, LaRue County Sheriff
Members of the LaRue County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,842,272 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 11, 2005

LARUE COUNTY
BOBBY SHOFFNER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

May 3, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 527,857	\$ 315,998	\$ 1,661,634	\$ 494,401
Tangible Personal Property	32,073	19,052	91,027	50,051
Intangible Personal Property				13,497
Fire Protection	1,272			
Prior Year Additional Taxes	2,755	1,605	8,661	2,676
Franchise Corporation	84,544	51,249	241,180	
Additional Billings	80	46	250	74
Bank Franchises	46,441			
Penalties	4,287	2,611	13,445	4,110
Adjusted to Sheriff's Receipt	(97)	(45)	(331)	(142)
Gross Chargeable to Sheriff	<u>\$ 699,212</u>	<u>\$ 390,516</u>	<u>\$ 2,015,866</u>	<u>\$ 564,667</u>
<u>Credits</u>				
Exonerations	\$ 3,684	\$ 2,467	\$ 11,030	\$ 5,039
Discounts	9,080	4,854	25,429	8,180
Delinquents:				
Real Estate	9,621	6,574	30,287	9,012
Tangible Personal Property	491	290	1,394	1,409
Intangible Personal Property				226
Uncollected Franchise	<u>17,845</u>	<u>11,641</u>	<u>51,134</u>	
Total Credits	<u>\$ 40,721</u>	<u>\$ 25,826</u>	<u>\$ 119,274</u>	<u>\$ 23,866</u>
Taxes Collected	\$ 658,491	\$ 364,690	\$ 1,896,592	\$ 540,801
Less: Commissions *	<u>28,273</u>	<u>15,488</u>	<u>75,864</u>	<u>23,272</u>
Taxes Due	\$ 630,218	\$ 349,202	\$ 1,820,728	\$ 517,529
Taxes Paid	623,255	346,636	1,802,962	515,917
Refunds (Current and Prior Year)	<u>3,746</u>	<u>2,210</u>	<u>10,783</u>	<u>1,509</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 3,217</u>	<u>\$ 356</u>	<u>\$ 6,983</u>	<u>\$ 103</u>

The accompanying notes are an integral part of this financial statement.

LARUE COUNTY
BOBBY SHOFFNER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
May 3, 2004
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,553,982
4% on	\$	1,896,592

** Special Taxing Districts:

Library District	\$	637
Health District		295
Extension District		516
Magnolia Fire District		(989)
City of Upton District		<u>(103)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>356</u></u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT

May 3, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 8, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,842,272 of public funds uninsured and unsecured.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
May 3, 2004
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 8, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	310,843
Uncollateralized and uninsured	<u>1,842,272</u>
Total	<u><u>\$ 2,253,115</u></u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 9, 2003 through May 3, 2004.

Note 4. Interest Income

The LaRue County Sheriff earned \$1,191 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of March 11, 2005, the Sheriff owes \$9 in interest to the school district and \$205 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The LaRue County Sheriff collected \$17,887 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The LaRue County Sheriff collected \$1,501 of advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). As of March 11, 2005, the Sheriff owes \$750 in advertising costs to the county as required by statute, and \$751 in advertising fees to his fee account to be used to operate the Sheriff's office.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
May 3, 2004
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing escrow account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys in this escrow account. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110.

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COMMENT AND RECOMMENDATION

LARUE COUNTY
BOBBY SHOFFNER, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of May 3, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,842,272 To Protect Deposits

On December 8, 2003, \$1,842,272 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

No Response

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
Auditor of Public Accounts

The Honorable Tommy Turner, LaRue County Judge/Executive
Honorable Bobby Shoffner, LaRue County Sheriff
Members of the LaRue County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the LaRue County Sheriff's Settlement - 2003 Taxes as of May 3, 2004, and have issued our report thereon dated March 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LaRue County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LaRue County Sheriff's Settlement - 2003 Taxes as of May 3, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,842,272 To Protect Deposits



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 11, 2005

